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RUEHCV/AMEMBASSY CARACAS 9461  
RUEHLP/AMEMBASSY LA PAZ MAY QUITO 0349  
RUEHSG/AMEMBASSY SANTIAGO 0531  
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RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC  
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STATE FOR WHA/AND, WHA/EPSC AND EB/IFD/OMA  
STATE PASS USTR (BHARMAN)  
STATE PASS AID (LAC/SA)  
TREASURY FOR G. SIGNORELLI  
COMMERCE FOR 4331/MAC/WH/MCAMERON  
DEPT OF ENERGY FOR D. PUMPHREY/ GARY WARD/SARAH  
LADISLAW/MANOLIS PRINIOTAKIS  
DEPT PASS TO INT/USGS/RESTON FOR DMENZIE/AGURMENDI

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SUBJECT: PERU'S FIRST QUARTER ECONOMIC SURPRISE

REF: LIMA 1825

11. (U) Summary: Just-released Q106 economic results indicate that Peru's economy grew 6.85 percent for the quarter, surprising the GOP and analysts alike. Given January's and February's relatively moderate growth rates of 4.4 percent and 4.9 percent, March's 10.7 percent growth not only exceeded analysts' projections but set a nine-year high for monthly GDP growth. End Summary

Strong Growth Continues  
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12. (U) Peru's economy grew for the 19th consecutive quarter, expanding 6.85 percent between January and March 2006, according to the Ministry of Economy and Finance. Exports continued to play a strong role in GDP growth, growing 22 percent to \$4.6 billion. Imports reached \$3.4 billion, a 28 percent increase, including nearly \$1 billion in capital goods imports. Although still under control, inflation has been inching upwards, registering 2.9 percent on an annualized basis.

March Came in Like a Lion...  
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13. (U) Based on January's and February's solid, if unspectacular GDP growth of 4.4 and 4.9 percent respectively, analysts had been predicting quarterly growth of around 5 percent. Practically all sectors of the economy grew at a faster pace in March than for the quarter as a whole, although local press focused on dramatic increases in construction and fishing as the primary drivers of March's (and therefore the quarter's) success. Construction and construction-related manufacturing activities grew 20 percent in the first quarter, especially in the urban commercial and residential real estate markets. The fishing sector grew 38 percent and fishing-related manufacturing (fishmeal and canning) grew 93 percent in March, driven

largely by the GOP's decision in late March to lift the ban on anchovy fishing in the north that had been in place in 2005.

...But Did it Go Out Like a Lamb?

14. (U) There are also indications that the economy has cooled off since March. RefTel reported on a slowdown in the growth rate in textile production. Construction industry sources report that builders have taken a wait-and-see approach to the elections -- further confirmed by a dramatically lower growth rate in cement sales (2.4 percent year-on-year for April versus 14.2, 15.1, and 22.5 percent growth for the first three months). And, imports grew only 4.1 percent in April, significantly below the 26 percent average growth rate over the last 20 months. (Note: Q1 2006 export results are not yet available. End note.)

Inflation Bears Watching

15. (U) Although inflation remains within the Central Bank's target ceiling, it increased steadily in the first quarter to 2.9 percent annualized. Inflation was driven largely by supply shocks in fresh vegetables, potatoes and other roots, and sugar (inflation was 1.6 percent excluding these products). There is some concern that continued high gasoline prices will eventually translate into higher transport costs. Given these risks, analysts and the Central Bank will be closely monitoring inflation in the coming months.

It's a Good Start

15. (U) Based in part on March's strong results and in part on increasing confidence among analysts and investors (based on recent opinion polls) that Alan Garcia will be the next president, 2006 GDP targets are likely to be revised upwards in the next few weeks to between 5.5 and 6 percent.

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